

Royalty-in-Kind Section
Vision of the Future
Long Term

Issue: Maintaining a consistent small refiner program.

Background All remaining RIK contracts terminate 5/1/99.
Last billings will be done in June 1999.
Reconciliations should be completed no later than 9/30/99.

It takes months to get ready for a sale, hold a sale, and start RIK deliveries as can be seen from the following examples of steps that must be taken:

- . Determine need for sale by Federal Register Notice soliciting interest from current/past refiners.
- . Reviewing/selecting suitable leases.
- . Revising contract terms.
- . Revising RIK section procedures.
- . Possibly start revising RIK regulations.
- . Holding sale.
- . Notify operators.
- . Establish sureties.

RIK team
approach:

Our team reviewed the issue and came up with the following suggestion:

Given all the work that must take place, and to maintain continuity in the small refiner program, we must start working on a new sale now.

Work would include the following:

- . Solicit interest from current refiners in the program (establish standard questions to ask).
 - . Would you want to continue in the program?
 - . Under current conditions?
 - . Under revised conditions?
 - . Delivery versus entitlement.
 - . Market center delivery and pricing.
 - . 99 day surety.
 - . Etc.
- . Solicit interest from prior refiners in the program (again, establish standard questions to ask).
 - . We need to explain new procedures.
- . Solicit comments from industry.

- . Industry meeting or standard questions.
 - . How can we make it as easy as possible on operators.
- . Learn more about industry operations:
 - . Pipelines, transportation, delivery points, market centers, gravity and quality banks, exchange agreements, refiner operations, etc.
- . Review possible leases:
 - . Large producers
 - . "Simplistic" lease/agreement terms
 - . Location to pipelines, market centers
 - . No 8G leases, old Section 6 leases, etc.
- . Review contract terms:
 - . Pricing
 - . Duration
 - . Sureties
 - . Termination
 - . Transportation
 - . Gravity banks
 - . Etc.
- . Review regulations for any changes needed.
- . Review refiner information to determine suitability for program:
 - . Internet information
 - . Financial reports filed
 - . Rating services

Advantages to suggestion	Disadvantages to suggestion
Eliminates political heat that has occurred in the past when no sales are scheduled.	If it is determined not to hold a sale, this could be a waste of time (however, knowledge is never a waste of time).
Congress is pushing for more RIK, this is another way to give Congress what they want.	Initial criticism that there is no need for a small refiner program (the work we perform should prove this right or wrong)
Industry keeps pushing for RIK, give them RIK (even though it is not the type of program they may want).	

The more work we do <u>now</u> , the better the program will be. Be proactive versus reactive.	
Program does not cost the Federal Government any money	
Provides jobs (industry and Government).	
Refiners want continuity.	
Provides relief from a market where refiners can not always get oil without paying high prices and high transportation.	
More information, in addition to all the RIK pilots, on RIK benefits/drawbacks.	
Follows the suggestion approved in Phase II report.	